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SUBJECT: CHINA ANNOUNCES NONFERROUS METALS INDUSTRY SUPPORT PLAN

REF: (A) Beijing 151; (B) Beijing 326; (C) Beijing 425; (D) Beijing 443; (E) Beijing 515; (F) Beijing 583; (G) Beijing 585; (H) Beijing 592

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¶1. (SBU) SUMMARY: China's State Council announced on February 25 a nonferrous metals industry support plan, the ninth of ten plans to help the country's key industries. The plan aims to control production volumes and support technical innovations within the nonferrous metals sector, which includes aluminum, copper, tin, lead, zinc and other metals. An industry contact welcomed the plan's support for industry consolidation and establishment of national reserves of nonferrous metals while downplaying concerns about export rebates and China's "go out" policy of encouraging leading Chinese firms to acquire natural resources overseas. End Summary.

¶2. (U) The State Council approved a new support plan for the Chinese nonferrous metals industry on February 25 - the ninth of ten plans for key industries. The plan covers aluminum, copper, tin, lead, zinc and other nonferrous metals. (See reftels for reporting on autos, steel, textiles, machinery, shipbuilding, IT/electronics, petrochemicals, light industry and logistics.)

¶3. (SBU) Full of generalities and lacking in details, the plan includes the following measures: 1) stabilize and expand domestic markets, improve the export environment, support high-value added exports, and adjust production to meet power, transportation, construction, machinery and light industries' demand; 2) control total production volume and accelerate elimination of backward production capacity; 3) upgrade technology and improve R&D, develop advanced technologies, and upgrade processing equipment; 4) promote mergers and improve industry concentration levels, improve management, work safety, and competitiveness; 5) fully utilize both domestic and overseas resource markets; and 6) develop recycling and improve comprehensive resource utilization. The State Council also announced that the government would subsidize loans for upgrading technologies, "adjust" the VAT refund rate structure, and establish a national reserves mechanism.

Industry Welcomes Plan's Support for Consolidation, Reserves
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¶4. (SBU) The China Nonferrous Metals Industry Association drafted the plan, which was then reviewed and revised by the National Development and Reform Commission (NDRC) and approved by the State Council. According to Bian Gang, Deputy Director General of the Association's Department of International Cooperation, the global financial crisis and sharp drop in prices of nonferrous metals have had a significant impact on China's nonferrous metals industry. He said the Association, which represents more than 1000 metals producers, welcomed the plan's support for industry consolidation.

The plan would help the Association's efforts to encourage producers to consolidate through mergers and acquisitions, forcing inefficient and polluting industries to leave the market and resulting in energy savings, reduced emissions and improved efficiency. Bian said the plan to establish national reserves for nonferrous metals would benefit both producers and the government. The reserves would allow the government to buy necessary metals when prices are low and use them when prices are high. At the same time, the government purchase of metals for reserve would help companies facing overcapacity.

¶5. (SBU) Regarding the government's 4 trillion yuan stimulus package, Bian said the nonferrous metals industry would benefit from increased domestic demand for infrastructure projects, though not nearly as much as the steel industry. He also noted that the "Appliances to the Countryside" program announced as part of the light industry support plan (ref F) would increase demand for nonferrous metals used for the production of certain appliances. Bian downplayed concerns about "adjustments" to the VAT refund rate structure, arguing that the export rebate policy would only apply to end use products made of nonferrous metals and not to the metals themselves.

Companies "Go out" to Acquire Overseas Resources
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¶6. (SBU) According to Bian, the Association and the government encourage nonferrous metals producers to "go out" (zouchuqu) and buy shares of overseas resources. However, he stressed the commercial nature of these activities, arguing that the government does not provide financial support to these activities. In the case of Chinalco's proposed USD19.5 billion investment in Rio Tinto (ref H), Bian said the state-owned China Development Bank (CDB) supported the

deal because the bank believed it would profit. He noted that several other Chinese nonferrous metals companies - including Jinchuan Group, Zhongjin Lingnan Nonfemet Company, and China Minmetals Nonferrous Metals Company - had plans to invest overseas. Bian said some members of the Association had a strong interest in buying a U.S. silver mining company, noting the selling price of the company had dropped to 1/10 of the original price.

Comment

¶7. (SBU) Although the nonferrous metals industry support plan does not explicitly endorse the "go out" policy, its measures clearly suggest government support for creating internationally-competitive SOEs with the ability to acquire resources overseas. In particular, the government's support for "promoting mergers" and "fully utilizing both domestic and overseas markets to ensure the supply of resources" will no doubt benefit large SOEs such as Chinalco. With deep pockets and government backing, these SOEs will likely continue to seek overseas investments that take advantage of low prices and secure strategic resources.

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